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CHINA'S DUAL CIRCULATION STRATEGY AND THE RECONFIGURATION OF CHINA–GERMANY MANUFACTURING RELATIONS

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Abstract

This article examines how China's Dual Circulation Strategy reshapes China–Germany economic cooperation in the manufacturing sector. Using a qualitative case study of bilateral manufacturing relations after 2020, it analyses how China's state-capitalist industrial strategy affects German manufacturing through changes in trade patterns, investment localization, industrial competition, supply-chain dependence, and state-business relations. The article argues that Dual Circulation should not be read as economic isolation or direct decoupling. It is better understood as a state-led effort to strengthen domestic demand, technological self-reliance, and industrial capacity while preserving external circulation where it supports China's upgrading. For German manufacturers, Dual Circulation produces a more selective and contested form of interdependence. China remains an important market, production base, and supply-chain node, while also becoming a stronger competitor in automobiles, batteries, machinery, chemicals, and advanced industrial technologies.

Keywords: Dual Circulation Strategy; State Capitalism; German Manufacturing; Strategic Interdependence; De-risking

INTRODUCTION

China's economic rise remains one of the central questions in international political economy because it changes how states, firms, and global production networks relate to one another. Since the reform period began in the late 1970s, China has moved

from a relatively closed and low-income economy into a major center of manufacturing, trade, infrastructure finance, and industrial upgrading. This transformation has often led scholars and policymakers to compare China with the United States and to treat China as a structural challenger to the liberal economic order. The comparison, however, needs careful measurement. In nominal GDP, the United States remains larger than China, while China ranks above the United States when measured through purchasing power parity, which captures domestic purchasing capacity rather than market exchange-rate size (International Monetary Fund, 2026). The issue for this study is therefore not whether China has already become the largest economy in every sense, but how China is reorganizing its development model after the period of rapid export-led growth.

China's recent growth pattern shows why this question matters. World Bank data show that China's GDP growth declined from 6.8 percent in 2018 to 6.1 percent in 2019, fell to 2.3 percent in 2020 during the pandemic shock, recovered to 8.6 percent in 2021, and then moderated to 3.1 percent in 2022, 5.4 percent in 2023, and 5.0 percent in 2024 (World Bank, 2025). These data do not point to economic collapse. They point to a transition from fast expansion toward slower and more selective growth, shaped by weak consumption, property-sector stress, demographic pressure, youth unemployment, and the need to move from low-cost manufacturing toward higher-value production. External pressure sharpened this adjustment. The United States–China trade war, technology restrictions, supply-chain disruption during the Covid-19 pandemic, and the growing use of economic-security policy in Europe changed the environment in which Chinese industrial policy operates.

The Dual Circulation (DC) Strategy emerged from this setting. Introduced in 2020 and later embedded in the Fourteenth Five-Year Plan, the strategy gives greater weight to domestic circulation, which refers to domestic demand, internal market integration, innovation, technological upgrading, and industrial capacity. External circulation remains part of the model through trade, investment, foreign markets, and participation in global production networks (National Development and Reform Commission, 2021). The policy is therefore better understood as a reorganization of China's relationship with the global economy rather than a move toward economic isolation. China seeks to make domestic demand and domestic industrial capacity more

central, while still using external markets and foreign capital where they support national development objectives.

Existing studies explain this strategy from several angles. Su and Liang (2021) read DC as a response to protectionism and external shocks, while also linking it to a longer process of domestic restructuring. Lin (2021) gives more emphasis to the size of China's domestic market and argues that internal demand can become a major source of growth without eliminating external engagement. These works are useful because they prevent a narrow reading of DC as defensive nationalism. The policy responds to external pressure, but it also follows a longer domestic agenda of rebalancing, innovation, and industrial upgrading.

A second body of literature focuses on the role of the state. Naughton (2021) shows that Chinese industrial policy has become more ambitious since the 2000s, especially through programs such as Made in China 2025 and innovation-led manufacturing policy. Pearson, Rithmire, and Tsai (2021) describe China as a system of party-state capitalism, where the Communist Party shapes firms, financial institutions, strategic sectors, and market governance. Milhaupt and Zheng (2015) add that the boundary between state-owned and private firms is often blurred because private firms also operate inside an institutional environment shaped by state priorities. Lardy (2019) gives a more critical view by showing how the expansion of the state sector can weaken private-sector dynamism. These debates suggest that DC should be examined through the interaction between state priorities, business actors, industrial upgrading, and political control.

The external consequences of this domestic strategy create the main research problem. If DC strengthens China's domestic market, supports national firms, reorganizes supply chains, and accelerates technological upgrading, its effects will reach China's trading partners. Germany is a critical case because its relationship with China is deeply rooted in manufacturing. German firms have long been strong in automobiles, machinery, chemicals, electrical equipment, and industrial technology. China, however, is no longer only a destination for German exports or a site of lower-cost production. It has become a competitor in electric vehicles, batteries, renewable-energy equipment, industrial machinery, and advanced manufacturing. This changes

the older pattern in which German technology and Chinese demand appeared largely complementary.

The scale of the bilateral relationship makes the case more significant. China was Germany's largest trading partner from 2016 to 2023, was temporarily displaced by the United States in 2024, and became Germany's largest trading partner again in 2025, with total goods trade reaching €251.8 billion (Destatis, 2026). Trade with China grew by 2.1 percent in 2025, while German trade with the United States declined by 5.0 percent (Destatis, 2026). The size of this relationship shows that China remains central to Germany's external trade, but the aggregate figure does not explain sectoral vulnerability. Bundesbank (2024) shows that Germany's exposure to China works through direct trade, intermediate inputs, final demand, and foreign direct investment. These findings show why the China–Germany relationship must be read through manufacturing structure, not only through total trade volume.

Germany's response has been framed through de-risking. Germany's 2023 China Strategy defines de-risking as reducing dependencies in critical areas, considering geopolitical factors in economic decisions, and increasing resilience (Federal Foreign Office, 2023). The European Commission uses similar language by arguing that Europe should reduce strategic vulnerabilities without pursuing full decoupling from China (European Commission, 2023). This policy direction, however, does not fully match corporate behavior. Rhodium Group reports that German firms accounted for 57 percent of total EU investment in China in the first half of 2024, 62 percent in 2023, and 71 percent in 2022, with the automotive sector as the main driver (Kratz et al., 2024).

This gap between policy caution and corporate localization is central to the article. German policymakers increasingly view China through the language of vulnerability, resilience, and strategic dependence. German firms often approach China through market access, production localization, supply-chain security, and competitive survival. Existing studies explain why China adopted DC, how Chinese state capitalism works, why Europe pursues de-risking, and why Germany remains exposed to China. Fewer studies connect these processes in one bilateral manufacturing relationship. This article addresses that gap by asking how DC affects China–Germany economic cooperation in the manufacturing sector. The article argues that the effect does not

appear mainly through open confrontation or formal protectionism. It appears through changing trade patterns, deeper German production localization in China, stronger Chinese competition in advanced sectors, supply-chain exposure, and the recalibration of state-business relations in both countries.

LITERATUR REVIEW

Theoretical Framework

This study uses state capitalism as the main theoretical framework to explain DC and its implications for the German manufacturing sector. State capitalism is relevant because DC cannot be understood as a normal macroeconomic adjustment. It is a state-led strategy that reorganizes domestic demand, industrial policy, technological upgrading, corporate behavior, and external economic relations. In this framework, the state does not stand outside the market as a neutral regulator. It acts as owner, financier, planner, coordinator, and political authority over strategic sectors. This view follows the broader tradition of international political economy, which treats markets as institutions shaped by power, policy, and political authority rather than autonomous economic spaces (Strange, 1988).

Modern state capitalism operates through several instruments. Musacchio and Lazzarini (2014) show that state influence can work through direct ownership, state shareholding, development banks, subsidies, public procurement, regulatory privilege, and policy coordination. This understanding fits the Chinese case because state influence is not limited to state-owned enterprises. It also reaches private firms through finance, licensing, party networks, market access, industrial subsidies, and regulatory discipline. Milhaupt and Zheng (2015) therefore argue that the boundary between state-owned and private firms in China is often blurred. Large firms may differ in ownership form, but they operate within an institutional environment shaped by national industrial priorities.

For this study, the more specific concept is party-state capitalism. Pearson et al. (2021) argue that China's political economy is marked by the expansion of party-state authority into firms, finance, and market governance. This concept is useful because DC was introduced when the Chinese Communist Party had strengthened its role in corporate governance, technological self-reliance, financial allocation, and economic

security. Naughton (2021) also shows that Chinese industrial policy has moved from selective intervention toward a wider effort to steer resources into strategic industries. DC can therefore be read as part of this trajectory. It gives priority to the domestic market, industrial upgrading, technological self-sufficiency, and the strengthening of Chinese firms, while preserving access to trade, investment, and global production networks.

The framework also uses state-business relations to explain how this policy travels beyond China. In China, the party-state can shape business behavior through industrial policy, finance, ownership, regulation, market incentives, and political discipline. In Germany, the relationship between state and firms is more negotiated. The German state seeks to reduce exposure to China through de-risking, investment screening, export controls, and industrial-security policy. German firms, however, still make decisions based on market access, production costs, technological cooperation, and competitive pressure. Evans's concept of embedded autonomy helps clarify this tension because it shows that industrial transformation depends on the relationship between state capacity and business networks (Evans, 1995). In the China–Germany case, China represents a more directive form of state-business coordination, while Germany represents a more institutionally constrained and negotiated form of coordination.

The supporting concept is strategic interdependence. Keohane and Nye's idea of complex interdependence remains useful because it explains how economic ties create mutual dependence across trade, finance, production, and institutions (Keohane & Nye, 1977). Recent work shows that interdependence can also become a source of vulnerability when states treat economic networks as strategic assets. Farrell and Newman (2019) explain how global networks can become sources of leverage when states control key nodes, chokepoints, or institutional infrastructures. This concept helps explain why China–Germany manufacturing relations are not moving toward a simple break. Their economic relationship is becoming more selective, more political, and harder to manage.

This framework allows the study to examine the implications of DC through several observable channels. The policy may change trade patterns if Chinese industrial upgrading reduces demand for German machinery, vehicles, and high-value

manufacturing exports. It may encourage investment localization when German firms produce in China to remain close to Chinese demand and regulatory priorities. It may intensify industrial competition in electric vehicles, batteries, machinery, chemicals, and advanced manufacturing. It may also expose supply-chain dependence because German manufacturers still rely on Chinese inputs, components, and intermediate goods. Through this framework, DC is treated as an expression of Chinese state capitalism whose effects on Germany are mediated by state-business relations and strategic interdependence.

METHODOLOGY

This study uses a qualitative case study method to examine how DC affects China–Germany economic cooperation in the manufacturing sector. This method is appropriate because the research focuses on a specific policy, bilateral relationship, and sectoral field. A case study allows the analysis to place a contemporary policy within its real setting, especially when state interests, corporate strategy, industrial policy, and international economic structure cannot be separated neatly (Yin, 2018). In this study, DC is treated as part of China's state-capitalist strategy whose effects can be traced through Germany's manufacturing relations with China.

The unit of analysis is China–Germany manufacturing cooperation after the introduction of DC in 2020. The period covered is 2020–2025 because it includes the launch of the policy, pandemic-related disruption, supply-chain restructuring, the rise of European de-risking, and stronger industrial competition between Chinese and German firms. The sectoral focus is placed on automobiles, machinery, chemicals, electrical equipment, batteries, and industrial technology because these sectors form the core of Germany's manufacturing relationship with China.

The study relies on secondary data collected through document analysis. Bowen (2009) explains that document analysis provides a systematic way to examine policy documents, statistical reports, corporate publications, think-tank studies, and academic literature. The main documents include China's Fourteenth Five-Year Plan, Germany's 2023 China Strategy, European Union documents on de-risking, and reports on trade, investment, and industrial policy. Empirical data are drawn from Destatis, Deutsche Bundesbank, OECD TiVA, UN Comtrade, Rhodium Group, and MERICS. These

sources are used to trace bilateral trade, German exposure to China, value-added trade, supply-chain dependence, sectoral trade patterns, and investment trends.

The analysis applies within-case process tracing. George and Bennett (2005) argue that process tracing helps identify mechanisms within a case rather than merely describing outcomes. This study traces the mechanism from DC as a state-capitalist policy, to China's domestic-market strengthening and industrial upgrading, and then to observable changes in Germany's manufacturing relationship with China. The implications are assessed through changes in trade patterns, German investment localization in China, Chinese industrial competitiveness, German supply-chain dependence, and state-business recalibration. The study does not claim statistical causality. It explains political-economic implications through triangulation between policy documents, official statistics, corporate data, and scholarly analysis.

RESULTS

Dual-Circulation as China's State-Capitalist Industrial Strategy

DC is best understood as an expression of state capitalism because the policy places the party-state at the center of market organization, industrial upgrading, finance, and external economic adjustment. State capitalism does not refer to the disappearance of markets. It refers to a political-economic arrangement in which market competition remains active, but the state retains the capacity to guide accumulation, allocate strategic resources, support selected sectors, and discipline business actors when their activities no longer fit national priorities. Musacchio and Lazzarini (2014) explain that modern state capitalism works through ownership, state shareholding, development banks, subsidies, public procurement, regulatory privilege, and policy coordination. This formulation is useful for China because state authority does not operate only through state-owned enterprises. It also shapes private firms through finance, licensing, industrial policy, party networks, market access, and regulatory discipline.

This framework fits China's political economy because the Chinese Communist Party does not treat economic governance as separate from political authority. The party-state shapes firms, banks, local governments, regulatory agencies, and industrial priorities through formal rules and informal signals. Pearson et al. (2021) describe this arrangement as party-state capitalism, where the party penetrates firms, financial

institutions, and market governance while still allowing commercial competition within politically defined boundaries. This helps explain why DC should not be treated as a normal macroeconomic adjustment to slower growth. It is a state-capitalist strategy that reorganizes domestic demand, industrial capacity, technological self-reliance, and external circulation under the direction of the party-state.

The strategy gives priority to internal circulation, which includes domestic production, distribution, consumption, innovation, and market integration. External circulation remains active through trade, foreign investment, outward expansion, and participation in global production networks. The issue is not whether China withdraws from globalization. The issue is how China restructures its participation in globalization so that external openness strengthens domestic resilience. Earlier phases of Chinese growth relied heavily on exports, foreign capital, imported technology, and global value chains. These channels still matter, but they now operate under a more security-oriented and state-directed framework. Naughton (2021) shows that Chinese industrial policy has expanded from selective sectoral intervention into a broader system of technological upgrading and manufacturing transformation. McNally (2012) also explains China's capitalism as a formation that combines market exchange, state coordination, informal networks, and global integration. DC continues that pattern by making the domestic market the main foundation of growth while using external circulation more selectively.

The emergence of DC is closely related to the limits of China's earlier development model. Export-led growth helped China build manufacturing scale and global market access, but it also created exposure to foreign demand, overseas market volatility, external technology restrictions, and geopolitical pressure. The United States–China trade war, restrictions on advanced technology, the Covid-19 supply-chain disruption, and the growing politicization of trade strengthened the argument for a more domestically anchored development model. In this setting, the domestic market becomes a stabilizing arena because it can absorb production, support industrial activity, and reduce excessive dependence on external demand.

State-owned enterprises occupy a distinct position within this arrangement. They cannot be understood only as commercial corporations. They function as instruments of stabilization, infrastructure expansion, strategic supply, technological

upgrading, and industrial restructuring. Under DC, SOEs help translate national policy priorities into sectoral action, especially in energy, transport, finance, telecommunications, raw materials, and advanced manufacturing. Their role is not limited to producing goods or services. They can absorb political tasks, maintain investment in sectors with uncertain returns, and support state objectives that private firms may avoid when risks are high. This explains why SOEs remain important even though China has a large and dynamic private sector.

Technological self-reliance is another central feature of the strategy. China's dependence on foreign technology became more politically sensitive after the United States expanded restrictions on semiconductors, telecommunications, and other high-technology sectors. DC responds to this vulnerability by strengthening domestic innovation systems while still using foreign capital, knowledge, and markets when they support domestic capability formation. This reflects the selective logic of the policy. China does not reject external engagement, but it seeks to prevent external dependence from becoming a constraint on domestic upgrading. Private firms also play a significant role in this model. Strategic private firms are incorporated into national development goals, especially in digital platforms, electric vehicles, batteries, artificial intelligence, logistics, semiconductors, and advanced manufacturing (Ten Brink, 2019).

DC therefore represents continuity and change in China's state-led economic governance. The continuity lies in the persistent role of the party-state, SOEs, state banks, local governments, planning instruments, subsidies, and central-local coordination. The change lies in the stronger emphasis on domestic circulation, technological self-reliance, supply-chain security, and strategic selectivity in external engagement. The main logic is the reorganization of interdependence. Domestic circulation becomes the foundation of growth, external circulation becomes a managed supplement, and the party-state remains the organizer of the relationship between the two.

Effects on German Manufacturing

The implications of DC for the German manufacturing sector do not appear as a sudden rupture in bilateral economic relations. The shift is more gradual and structural. China and Germany remain connected through trade, investment, production

networks, technology, and intermediate goods, yet the terms of this relationship have changed since 2020. DC gives greater weight to China's domestic market, local production capacity, technological self-reliance, and industrial upgrading. External circulation is still maintained, but it is increasingly organized to support domestic resilience and Chinese industrial competitiveness. For German manufacturing, this means that China is no longer only a large export destination. China has also become a production base that German firms cannot easily leave, a competitor in sectors associated with German industrial strength, and a source of supply-chain exposure that is increasingly treated as strategic risk.

The first visible implication lies in trade. China–Germany trade remains large, and aggregate figures confirm that China remains central to Germany's trade structure. China again became Germany's most important trading partner in 2025, with total goods trade reaching €251.8 billion (Destatis, 2026). Trade in goods with China grew by 2.1 percent from the previous year, while German trade with the United States declined by 5.0 percent (Destatis, 2026). Yet aggregate trade does not show whether Germany's manufacturing position has become stronger or weaker. The more relevant issue is the composition of trade and the direction of industrial adjustment. Under DC, China seeks to reduce dependence on foreign technology and high-end intermediate goods where domestic substitution is possible. This does not mean that German exports disappear. It means that German firms now face a market in which Chinese policy encourages local firms to replace imported components, deepen domestic supply chains, and move into higher-value production.

Investment localization is the second major implication. German manufacturers have not responded to China's changing policy environment mainly by leaving the country. Many have deepened their local presence. Rhodium Group's data support this interpretation. German FDI accounted for 57 percent of total EU investment in China in the first half of 2024, 62 percent in 2023, and 71 percent in 2022. The same report states that this pattern was driven mainly by German carmakers, while auto-related FDI accounted for roughly half of all EU investment in China since 2022 (Kratz et al., 2024). These figures should not be read simply as evidence of German confidence in China. They also show the growing necessity of localization. German firms invest more deeply because the Chinese market remains too important to abandon and because competition

inside China increasingly requires local production, local partnerships, and faster adaptation.

The automotive sector shows this shift most clearly. German carmakers built a strong position in China through joint ventures, premium branding, engineering quality, and the growth of China's middle class. That model is now under pressure because the transition to electric vehicles changes the basis of competition. Internal combustion engineering no longer provides the same advantage when competition moves toward batteries, software, digital services, autonomous features, and fast product renewal. Chinese firms have become stronger in many of these areas. DC supports this shift by strengthening domestic demand for new-energy vehicles, encouraging local supply chains, and linking industrial upgrading to China's internal market. German firms therefore follow 'in China, for China' strategies. They localize assembly, but also research, design, procurement, and technology partnerships.

Industrial competition extends beyond automobiles. China's upgrading also affects machinery, electrical equipment, chemicals, batteries, and advanced manufacturing. Chinese firms that previously depended on foreign technology become producers of competing goods. The Chinese domestic market becomes a training ground for firms that later compete internationally. State-backed industrial policy accelerates capability formation in enabling technologies such as numerical control, robotics, intelligent manufacturing, advanced equipment, and battery systems. German machinery producers still hold advantages in quality, precision, specialized engineering, and industrial services. Yet these advantages are no longer protected by a wide technological gap. They now need to be defended through continuous innovation, local adaptation, and higher specialization.

Supply-chain dependence is the fourth implication. Germany's exposure to China is often underestimated when measured only through exports. The more important issue is how much German production depends on Chinese intermediate inputs, components, and materials. Bundesbank's January 2024 assessment states that Germany's economic ties with China have generated gains, but also growing risks through trade, supply chains, and financial exposure (Bundesbank, 2024). This point is central because DC seeks to reduce China's vulnerability by strengthening domestic capacity, while German manufacturing remains exposed to China-linked inputs and

production networks. DC seeks to reduce China's dependence on foreign inputs through domestic capacity building. Germany continues to rely on Chinese components, materials, and production networks in several industrial sectors. This is not ordinary interdependence. It is interdependence shaped by asymmetrical adjustment.

Chinese investment in Europe reinforces this pattern. MERICS and Rhodium Group report that Chinese FDI in the EU and the United Kingdom reached €10 billion in 2024, rising 47 percent from the previous year. Greenfield investment increased by 21 percent year-on-year to €5.9 billion, while EV-related projects accounted for €4.9 billion, or 83 percent of all Chinese greenfield FDI in Europe in 2024 (Kratz et al., 2025). This supports the view that Chinese upgrading is not confined to China's domestic market. Chinese firms are also building production positions in Europe, especially in EVs and batteries. DC affects German manufacturing through structural adjustment rather than open confrontation. Trade remains large, but it is more contested. Investment remains strong, but it is more defensive and localized. The China–Germany manufacturing relationship is no longer organized mainly by complementarity between German technology and Chinese demand. It is increasingly organized by competition within interdependence.

DISCUSSION

Strategic Interdependence in China–Germany Relations

The China–Germany manufacturing relationship can no longer be understood as ordinary trade dependence. The more precise concept is strategic interdependence. China and Germany remain economically connected, but their connection has become more political, more strategic, and harder to manage through market logic alone. This argument builds on the distinction between liberal interdependence and strategic interdependence. In a liberal view, dense economic exchange is expected to create mutual gains and make cooperation more rational than confrontation. Keohane and Nye's concept of complex interdependence remains useful because it explains that relations between states are shaped by multiple channels, including trade, finance, production, institutions, and social contact (Keohane & Nye, 1977). Yet the China–Germany case shows that interdependence does not automatically produce political stability. Once industrial supply chains, data, batteries, semiconductors, rare earths,

electric vehicles, and investment screening enter geopolitical calculation, economic ties no longer operate as neutral market relations. Farrell and Newman (2019) explain how networked economic relations can generate leverage and vulnerability when states or firms control critical nodes.

The shift is visible in the meaning of de-risking. Germany and the European Union do not officially seek full decoupling from China. The European Commission frames its approach as de-risking, which means reducing critical vulnerabilities while maintaining economic relations where possible (European Commission, 2023). Germany's 2023 China Strategy uses a similar formulation by linking de-risking to the reduction of critical dependencies, the inclusion of geopolitical factors in economic decisions, and the strengthening of resilience (Federal Foreign Office, 2023). This language changes the political management of China policy. China is no longer approached only as a market opportunity. It is treated as a partner, competitor, systemic rival, and risk factor at the same time.

The difficulty lies in the fact that state policy and corporate behavior do not move in the same direction. German policymakers increasingly speak in the language of resilience, supply-chain security, risk reduction, and strategic dependence. German firms, especially large manufacturers, continue to make decisions through the logic of market access, production efficiency, customer proximity, and competitive survival. AHK Greater China's 2024 Business Confidence Survey reflects this tension by showing that 92 percent of German companies planned to maintain their operations in China, even though 60 percent perceived a deterioration in China's economy compared with the previous year (German Chamber of Commerce in China, 2024). For the German government, dependence on Chinese inputs, technologies, markets, and production networks can become a strategic liability when geopolitical conflict, sanctions, export controls, or supply-chain disruption occur. For German firms, reducing China exposure too quickly can weaken market share, raise production costs, interrupt supplier networks, and give Chinese or other foreign competitors more space.

German firms can therefore be understood as practicing selective hedging under continued dependence. They do not fully align with the state's desire to reduce exposure, but they also do not treat China as a risk-free market. They localize production to reduce vulnerability to tariffs, sanctions, or political disruption. They

pursue 'China for China' strategies to protect access to the Chinese market. They diversify selected sourcing and production where feasible. Yet they continue to invest because leaving China would weaken their competitive position. Rhodium Group notes that German original equipment manufacturers are intensifying investment in China to defend market share against domestic EV manufacturers, upgrade production facilities, expand local R&D, and form technology partnerships (Kratz et al., 2024).

This produces a specific form of state-business recalibration. On the German side, the state cannot simply command firms to reduce exposure because Germany's export and manufacturing model depends heavily on globally active companies. German political authority operates through strategy documents, investment screening, export controls, risk warnings, industrial policy, and EU-level coordination. On the Chinese side, the state has stronger capacity to steer firms, direct credit, shape industrial policy, and use domestic market access as a strategic instrument. This asymmetry matters because Germany's state-business relation is negotiated and constrained by corporate autonomy, while China's state-business relation is more directive and embedded in party-state capitalism.

DC and de-risking should therefore be read together. DC expresses China's effort to make interdependence less constraining by strengthening domestic demand, industrial capacity, and technological autonomy. De-risking expresses Germany's and Europe's effort to make interdependence less dangerous by reducing strategic vulnerabilities. Both strategies accept that full separation would be costly and unrealistic. Both also move away from the earlier assumption that dense economic ties can be managed mainly through market adjustment. China–Germany manufacturing relations are therefore moving from a model of complementary globalization toward a model of competitive interdependence.

CONCLUSION

Dual Circulation is better understood as China's effort to reorganize the relationship between domestic growth and external economic engagement. The policy strengthens domestic demand, technological self-reliance, and manufacturing capacity, while still keeping trade, investment, technology access, and firm internationalization as part of China's development strategy. Its logic reflects the way China's party-state

coordinates markets, firms, finance, industrial policy, and external economic relations to reduce vulnerability without fully withdrawing from global production networks.

For Germany, the implications are gradual but significant. China–Germany manufacturing relations remain dense, but their terms have changed. German firms still need China as a market, production base, and supply-chain node. At the same time, China has become a stronger competitor in automobiles, batteries, machinery, chemicals, and advanced industrial technologies. Trade remains large, but aggregate figures do not capture the full pattern of change. Investment localization, industrial competition, and supply-chain dependence show how German manufacturing is being repositioned inside a more China-centered industrial environment.

The China–Germany case also shows why dependence on China has become more strategic and difficult to manage. Germany's de-risking agenda reflects concern over critical dependencies and supply-chain vulnerability, while German firms continue to deepen their presence in China to protect competitiveness. This creates a tension between state policy and corporate strategy. The German state seeks to reduce exposure, while major manufacturers often manage risk through localization, selective hedging, compliance, and continued investment.

The central finding is that DC produces a more selective, contested, and strategically managed form of interdependence. China seeks to make external dependence less constraining through domestic circulation and industrial autonomy. Germany and the European Union seek to make engagement with China less risky through de-risking, investment screening, and industrial policy. Economic connection remains necessary for both sides, but it is increasingly shaped by rivalry, policy risk, and strategic calculation.

This article therefore challenges two simplified readings. DC is not simply a turn toward isolation, and China–Germany manufacturing relations can no longer be understood through the older logic of market complementarity. The relationship now operates through cooperation within competition. German firms remain active in China, but their position is increasingly shaped by Chinese industrial upgrading and stronger local rivals. China still benefits from German investment and technology, but it also seeks to reduce reliance on foreign industrial inputs. The result is a manufacturing

relationship that remains economically dense while becoming more political, strategic, and difficult to manage through market mechanisms alone.

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